

1812



1931



**Economic Conditions
Governmental Finance
United States Securities**

New York, March, 1931.

General Business Conditions

THE past month has witnessed further improvement in the business situation. Sentiment, that intangible but highly important factor in business recovery, has been decidedly more cheerful. That the action of the stock market is responsible in no small degree for the improvement in sentiment is unquestionably true. Although the record of the market as a prophet of business has not been very impressive over the past year or more, nevertheless stocks still hold a paramount place among business indexes, and with the wide distribution of stock ownership that now exists thousands of persons throughout the country feel richer or poorer according to their fluctuations.

The Recovery of Business

The business recovery has proceeded unevenly, as was to be expected at this stage, but nevertheless encouragingly. Some upturn, of course, is inevitable at this season, and has to be allowed for in judging the trend, and it is not yet clear that the gain in production has been of more than seasonal proportions. Some of the various indexes that are computed currently to show business after allowance for the seasonal factor, showed a further slight decline in January, while others advanced. One does not expect complete agreement in these indexes, since they are computed independently and usually include different commodities, but the fact that for the first time in many months there was a good representation of gains suggests that the general decline has at least been checked, which is the first step towards recovery.

For more than a year production has been declining, and during the past six months the curtailment in output has been very great. While it is true that consumption, too, has fallen off, due to the depression, the decrease by and large has not been as great as that of production. Hence, it was inevitable that sooner or later a time must come when current stocks of merchandise in an increasing number of lines would become exhausted and production have to be speeded up again to take care of current needs.

The pick-up of industry witnessed since the first of the year seems to be of this character. As might be expected, the indications of betterment have been more pronounced in lines of industry which are closest to the public and which produce commodities of every day usage that are being constantly worn out so that replacements cannot be postponed indefinitely. The automobile industry is the outstanding example of this, and more than any other single industry has been the moving force behind the present recovery.

November proved to be the low month for automobile production, the total output falling to 135,752 units, the lowest for that month since 1927. During December production moved against the usual seasonal trend, increasing to 155,706, as several large manufacturers began earlier than usual their production for the Spring campaign. January production showed a further increase to 171,903. However, the important thing is not so much the number of cars produced, but rather the sales to the consumer. While it is still too early to get any adequate measure of Spring buying, reports on sales during the past few weeks have been encouraging, and have induced a number of the producers to advance their output schedules more rapidly than previously anticipated. This improvement has in the natural course been passed down to the various supply industries, automotive accessories, steel, tires, etc., and through them to various other subsidiary industries along the line, illustrating how business recovery becomes cumulative once it gets under way.

Other Indications of Improvement

Steel mill operations have continued to expand slowly and at the end of February were at about 52 per cent of capacity, compared with 24 during the low week of December. For the month of January steel production amounting to 2,483,200 tons made a normal seasonal gain over December, which it will be remembered, however, was the lowest month since 1921. Most of the impetus in steel comes, of course, from the automotive trade, though trade re-

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views comment on an encouraging diversity of small orders from different sources. While prospects in most steel consuming lines, with the notable exception of pipe, appear rather uncertain at the moment, the trade continues generally optimistic in a conservative way, believing that at least the turn has come. Although prices of steel scrap and of pig iron have shown further decline, finished steel has been steady, with talk of possible early advances, should demand continue to improve. Blowing in of 7 blast furnaces during January, and more in February, were tangible indications of confidence among steel leaders in the character of the upturn.

Perhaps the most pronounced signs of improvement have come from the cotton textile industry, where an excellent demand for goods has developed within recent weeks. In part the gain is seasonal, and in part caused by the firmer tendency of raw cotton which has lessened fears of further price declines. A more fundamental cause, however, is the fact that the industry has been adhering to a sounder policy as regards production, which means keeping output in line with demand. According to a report of the New York Association of Cotton Textile Merchants, shipments during 1930 of standard cotton cloths were in excess of production for the first year since 1926, while stocks on hand were reduced by 21 per cent. During January of this year, sales were 18 per cent in excess of production, and shipments 4 per cent in excess of production. As a result of this elimination of overproduction, stocks of goods have been kept low enough to establish confidence in the industry and render it sensitive to any improvement in demand. The failure of prices, however, to improve continues an unsatisfactory feature, emphasizing the continued need for restraint upon over-rapid expansion of production. With a large capacity for over-production, the cotton industry is by no means out of the woods, and it remains yet to be seen what permanent success the industry will have in coping with its problems. The most hopeful feature has been the proposal to eliminate night employment of women and minors, which practically means the elimination of the night running that has been the principal cause of overproduction during recent years. Seventy-five per cent of the cotton mills in the United States, including 70 per cent of the night runners, have announced their endorsement of the single shift policy, with final adoption contingent upon the endorsement of an additional 5 per cent of the night runners not later than March 1, 1931.

In wool goods, too, conditions have shown betterment, reflecting low stocks, increased demand, and improved sentiment created by

firmer raw wool prices. Mill activity has been increasing.

Factors Limiting Recovery

The situation of farm products and crude products generally, on the other hand, is as yet no better. Farm products in the Bureau of Labor index table declined 2.2 per cent in January, and the combined figure was lower than at any time since January, 1912. Cotton is one important product recently up slightly, on account of more encouraging news about conditions in Asia and increased mill activity in this country, but the stock in this country at the end of January is estimated by the New York Cotton Exchange Statistical Bureau at 11,700,000 bales, which is not much short of what this full year's consumption will be. It never was more apparent that the South should grow its own food and feed, but that has been urged so long that there is little reason to expect any great change will be accomplished in one year. The acreage in cotton should be reduced, but there is the question as to what else shall be grown or what else but farming the cotton-grower can do for a living.

The acreage of the winter wheat crop in Russia is reported by the Commissariat of Agriculture as 19 per cent above that of last year. This, however, need not be taken as signifying that the yield will be correspondingly larger, for last year's yield per acre was exceptionally large. Nevertheless, the prospective carry-over of wheat outside of Russia on July 1 next is so large that the outlook for a better price must be considered dubious. The July option, Chicago, is selling at about 67 cents, or approximately 10 cents per bushel under the May option, which is better than two months ago, but indicates little expectation that the Farm Board will support the price of the next crop. The present outlook for the winter wheat crop is favorable, if a good yield is something to be desired. Wheat has sold recently in England as low as 60 cents per bushel, which according to Nat Murray's record, is the lowest price since 1594, and indicates that there is almost no speculative interest in the grain.

The Grain Stabilization Corporation has announced that it has sold or will sell 35,000,000 bushels of high grade wheat in Europe in order to clear out port stocks and obtain storage room for the next crop. This suggests that a considerable investment in storage capacity will be necessary if a decision is made to buy all of the next crop at prices above the market.

With 1926 prices as 100, Bureau of Labor Index numbers for some of the principal farm products in January, 1930, and January, 1931, and prices for the group of non-agricultural products, were as follows:

| | January, 1930 | January, 1931 |
|--------------------------------|---------------|---------------|
| Grains | 101.0 | 73.5 |
| Live stock and poultry | 93.8 | 62.4 |
| Butter, cheese and milk | 97.5 | 85.2 |
| Hides and skins | 104.2 | 64.4 |
| Non-agricultural products..... | 91.4 | 78.2 |

The farm products named above are of domestic production, but the natural products of other countries are in no better position, hence the countries producing them offer little prospect of affording markets for manufactures. The exports of this country declined about \$1,400,000,000 in value from 1929 to 1930. In the case of natural products the decline was largely due to lower prices, but this was not true of such products as automobiles and manufactures generally. In the latter, the falling off was because of loss of purchasing power among foreign customers or hostile legislation.

The Situation in Building

Building is one of the most important industries in the country, and plays a larger part in the fluctuations of employment than almost any other, because it draws so heavily upon various industries producing materials. Unfortunately, the outlook for a revival of building this year is not promising. The period from 1922 to 1928 was the greatest period for house-building the country ever has known. In new floor space provided, the average for these years ran from 50 to 100 per cent above that of the corresponding number of years immediately before the war. According to the figures of the F. W. Dodge Corporation, the average amount of new floor space provided by building operations (commercial, industrial, residential, public and semi-public edifices) in the ten years from 1906 to 1915, inclusive, was 444,000,000 square feet annually, while in the seven years from 1922 to 1928, the average of new floor space made available was 788,000,000 square feet.

As a result there is no pressing need for an extensive building program at this time, and many cities are over-supplied with hotels, office buildings and apartments. Of one class of housing there is an actual scarcity everywhere, that class being dwellings or apartments of modern type available to wage-earners and other persons of moderate incomes at moderate rentals or purchase price. The great demand on the building trades during the period of active operations beginning with 1922 resulted in wage advances which have made the construction of dwellings for the wage-earning class by past and present methods almost an economic impossibility. The methods of building small houses have not kept pace with the development of mass production in other lines or with methods in other kinds of building operations. The mail order houses have made a beginning in mass

production of building parts, structural steel manufacturers are experimenting with this class of materials, and it may be expected that rather radical innovations will be developed. It is not too much to say that the greatest boon that could come to the mass of wage-workers would be the development of methods by which their housing accommodations could be decidedly cheapened and improved. Furthermore, such a discovery might be one of the most potent means of lifting industry into a new career of prosperity.

The Way to Prosperity

While the depressed state of two great industries such as agriculture and building must be accepted as unfavorable to a rapid increase in the volume of purchasing power in circulation, it does not signify that improvement is not under way or likely to continue. So far as agriculture is concerned the farmers are helping themselves by reducing their costs, and we suspect that Mr. Alexander Legge, after two years of honest and strenuous efforts to improve agricultural conditions by means of the machinery provided by Congress, is fairly well convinced that he can do more for the cause in his old implement business.

The reduction of production costs for the farm staples means that living costs for the workers in other industries will be notably reduced. The Bureau of Labor, as the result of a study of prices in 32 cities of this country, reports that retail food prices declined 14½ per cent in 1930. The average of all living expenses, however, declined only 6.2 per cent, according to the National Industrial Conference Board, and is still 60 per cent above the pre-war level. This puts the responsibility for the unbalanced relationships upon the other industries and upon the methods of distribution. It cannot be doubted that there are many opportunities for reducing costs in the other industries and in distribution.

In 1925 the American Machinist made a survey of the metal-working machinery of this country and reported that 44 per cent of it was more than ten years old. In its comments, it stated that such had been the progress in tool-designing in the meantime that every tool over ten years old should be considered obsolete. The same publication recently has completed a similar survey and reports that 48 per cent of the metal-working machinery is now ten years old or more. It finds that although progress in tool-making has been greater in the last five years than in any other five years of history the percentage of obsolete machinery in use is greater now than five years ago.

There is a lesson in this revelation to all industry. The way out of a depression which is clearly due to unbalanced prices is by a reduction of the high prices, and the way to

accomplish this with the least friction and the greatest benefits to everybody is by the employment of better methods.

The improvement of modern industry means the expenditure of capital for improved equipment, and there is an endless amount of this to be done. The Pennsylvania Railroad, which last year expended \$106,000,000 upon the project of electrifying its line to Washington, will quicken the execution of its plans from four years to two and one-half. The successful inauguration of this improvement will mean much more work of the same kind. A few months ago we gave authentic information of the economies that may be accomplished by scrapping one-half of the locomotives now in use.

Provided always that the industries are kept in balanced relations, the cheapening of prices and services always has resulted in such an increase of consumption that the increased facilities are fully employed, and wages instead of being depressed have been on a rising scale.

Therefore, there is no reason for discouragement in the present industrial situation. The country has come out of every previous period of depression with more efficient industries and the ability to provide a higher standard of living to its population than ever before. Never are production costs so carefully studied as in a time of depression.

Money and Banking

The money market has continued easy during February, without, however, being so overloaded with excess funds as in January. Whereas a month ago, surplus reserves of New York City banks were running some \$60,000,000 above legal requirements, a good deal of this excess was absorbed during February, and on one or two occasions local banks were forced to borrow small sums at the Reserve bank, all of which, however, was cleaned up by the end of the month.

Reflecting this closer balance in the demand for and supply of funds, rates on bankers' acceptances were twice marked up by one-eighth during the month, and now stand $1\frac{1}{8}$ bid, $1\frac{1}{2}$ asked for prime 90-day bills. Rates for time money also hardened slightly to $1\frac{1}{2}$ - $2\frac{1}{4}$ per cent for 60-90 day loans and 2- $2\frac{1}{2}$ per cent for 4, 5, and 6 months' maturities, but these rates are nominal due to light demand for time money. Call money has continued $1\frac{1}{2}$ per cent on the Stock Exchange, with concessions of $\frac{1}{2}$ of 1 per cent frequently obtainable in the "outside" market.

During February it is normal for money to be a little firmer than in January. Thus far, however, there has been little evidence of seasonal expansion of commercial demands. Money in circulation, after declining steadily during January to the seasonal low point on

January 29, increased rather sharply during the first two weeks of February, but lost nearly half of this increase in the last two weeks. Accompanying three successive weeks of increase in brokers' loans amounting to \$82,000,000, total collateral loans of New York banks increased \$123,000,000, but as "all other" loans declined by \$171,000,000, there was a net decline in total loans amounting to \$48,000,000.

Lacking a demand from customers for funds, banks continued to increase their investments, the total increase for New York banks for the four weeks ended February 28 amounting to \$159,000,000, of which \$67,000,000 was in United States Government securities and \$92,000,000 in other securities.

Similarly, figures of the Federal reserve banks continue to reflect a very easy position. On February 25 member bank borrowings amounting to \$190,000,000 were the lowest for the year, and total Federal reserve credit outstanding was the lowest since August, 1924.

Gold imports reported for February totaled \$6,950,000, of which \$4,289,000 came from Argentina, \$1,100,000 from Uruguay, and \$1,133,000 from China. These, together with the release of \$2,500,000 of gold under earmark, resulted in a net gain of \$9,450,000 in total monetary stocks, establishing a new high record.

The Bond Market

The growing prospect of Soldiers' Bonus legislation by Congress was the outstanding factor in the bond market during February. The outbreak of panicky selling that occurred late in January, when the various proposals first attracted public attention, was followed by a moderate rally in prices during the first half of the current month. This improvement in tone was due to a realization that the danger of a law involving cash payments to veterans of three or more billion dollars had been averted, and that the bill as actually reported in the House of Representatives carried less serious implications. Nevertheless, the progress of the bill through Congress has been accompanied by considerable uncertainty and hesitation on the part of investors, and the bond market has remained relatively dull and sluggish since the middle of the month.

As a result of the prevailing uncertainty, the volume of new bond offerings in February has been unusually small, the total through February 24th amounting to only \$157,000,000 compared with \$621,000,000 for the month of January. Domestic municipal issues have accounted for approximately 50 per cent of the February total, and the volume of corporate financing, except for a few small utility issues, has been almost negligible.

The Foreign Bond Market

The recent speech by Mr. Gates McGarrah, president of the Bank for International Settlements, regarding the international capital movements has attracted much attention. Mr. McGarrah emphasized the importance of a release of the funds now swamping the short-term money markets in leading financial centers, and a resumption of long-term foreign lending by the creditor nations of the world.

The chief obstacle to such a development, which would provide an important stimulus to international trade, is the present lack of confidence in foreign securities on the part of the investing public. In the United States, particularly, there still exists a general distrust of the foreign bond market which is far from being warranted. It is clearly the result of an inadequate understanding of particular situations in each different country concerned. The focusing of public attention upon recent political and economic unsettlements in certain sections of the globe has tended to make investors lose sight of the past record of foreign securities in the American market, and at present is causing them to neglect the unusual bargains now available.

Stability of Foreign Bonds

There is a prevalent but mistaken belief that all foreign bonds have suffered severe price declines during the past year. In the following table is presented a list of foreign dollar bonds which shows the inaccuracy of any such sweeping assumption.

The table consists of foreign issues which not only showed during 1930 a degree of price stability equalled only by the very highest grade domestic securities, but which are also now selling at prices considerably above their original offering basis. This list includes governmental, municipal, railroad and indus-

trial bonds of ten countries. It is, of course, not representative of the entire field of foreign securities, but is by no means exhaustive of the large number of foreign dollar bonds with splendid records of stability and appreciation in price. In addition to bonds currently outstanding, many foreign issues have been called before maturity at substantial premiums during the past few years.

Central Europe and Latin America

Turning now to the foreign issues which have shown marked declines in recent months, we find in almost every case that these situations are aspects of the current worldwide business depression, and, therefore, must be considered as largely transitory. Particularly in the case of Central Europe and Latin America, we feel that the wholesale depression of bond prices, without discrimination as to the merits of each separate issue, has been greatly overdone.

The countries of Central Europe have passed through a trying period of economic readjustment since the summer of 1929 and many serious problems remain to be solved. These difficulties have loomed large in the public press, but they appear less formidable if compared to the European situation of only seven or eight years ago. As late as 1923, post-war bitterness was still acute, the currency and banking systems of virtually all the countries of Europe were in a state of chaos, and, from surface indications, the Continent seemed to have been bled beyond power of recovery. Since then Europe's resilience and recuperative vitality have been demonstrated. Now, after a decade of reconstruction and growing stability, with sound systems of currency and finance firmly established, and with central bank cooperation initiated under the

| | | | Issue Price | Price on Feb. 24, 1931 | Price Range 1/1/30 to 2/6/31 | |
|--|---------|------|-------------|------------------------|------------------------------|---------|
| | | | | | Low | High |
| Antwerp (City of)..... | 5's | 1958 | 94 | 100 1/4 | 92 | 101 |
| Austrian Government | 7's | 1948 | 90 | 106 1/4 | 102 | 108 |
| Belgium (Kingdom of)..... | 6's | 1955 | 87 1/2 | 103 1/2 | 100 1/4 | 106 |
| Copenhagen (City of)..... | 5's | 1952 | 97 1/4 | 100 1/4 | 95 1/4 | 100 1/4 |
| Denmark (Kingdom of)..... | 6's | 1942 | 94 1/4 | 106 | 103 1/4 | 107 1/4 |
| Dutch East Indies..... | 6's | 1962 | 94 1/4 | 102 | 101 | 103 1/4 |
| French Republic (Government of)..... | 7 1/2's | 1941 | 95 | 126 1/2 | 117 | 127 |
| French Republic (Government of)..... | 7's | 1949 | 94 | 120 1/4 | 112 1/4 | 122 |
| Greek Government | 7's | 1964 | 88 | 102 1/4 | 97 | 103 1/4 |
| Imperial Japanese Government..... | 6 1/2's | 1954 | 92 1/4 | 105 1/4 | 101 1/4 | 105 1/4 |
| Lyons, Marseilles, Bordeaux (Cities of)..... | 6's | 1934 | 92 1/4 | 104 1/4 | 102 1/4 | 106 1/4 |
| Nord Railway Co..... | 6 1/2's | 1950 | 88 1/2 | 106 1/4 | 102 1/4 | 107 1/4 |
| Norway (Kingdom of)..... | 5's | 1963 | 97 1/2 | 101 | 96 1/4 | 101 1/4 |
| Oriental Development Co., Ltd..... | 6's | 1953 | 92 | 99 | 92 | 100 |
| Oslo (City of)..... | 6's | 1955 | 99 1/4 | 103 1/4 | 96 1/4 | 104 |
| Paris-Lyons-Mediterranean RR Co..... | 6's | 1958 | 88 | 104 1/4 | 102 | 106 1/4 |
| Paris-Lyons-Mediterranean RR Co..... | 7's | 1958 | 93 1/4 | 106 1/4 | 103 1/4 | 107 1/4 |
| Paris-Orleans Railroad Co..... | 5 1/2's | 1968 | 96 | 103 1/4 | 99 1/4 | 105 1/4 |
| Seine (Department of the)..... | 7's | 1942 | 90 1/4 | 107 1/4 | 106 | 109 1/4 |
| Solssons (City of)..... | 6's | 1936 | 85 1/4 | 105 1/4 | 101 1/4 | 107 |
| Swedish Government | 5 1/2's | 1954 | 99 1/4 | 105 | 102 1/4 | 107 1/4 |
| Switzerland (Government of)..... | 5 1/2's | 1946 | 97 1/4 | 106 | 102 1/4 | 106 1/4 |
| Tokyo (City of)..... | 5 1/2's | 1961 | 89 1/4 | 93 | 87 1/4 | 93 1/4 |
| Yokohama (City of)..... | 6's | 1961 | 98 | 98 1/4 | 93 1/4 | 99 1/4 |
| United Steel Works of Burbach-Elch-Dudelange | 7's | 1951 | 92 1/4 | 105 1/4 | 102 | 107 1/4 |

Bank for International Settlements, there is ground for confidence in the ability and willingness of European nations to honor their debts.

In Latin America, similarly, all of the responsible governments have accepted as a cornerstone of their policies the strict observance of external obligations. Furthermore, the revolutions which last year overturned in quick succession several of the leading governments in this part of the world were not of such nature as to arouse undue apprehension for anyone with a clear understanding of each situation. While economic distress and unemployment caused by the worldwide business depression and the decline in commodity prices provided added momentum to the popular support for the revolutionary movements, and thus insured their success, the basic reasons for the overthrow of the existing governments differed substantially in each of the countries involved. It was characteristic of each of the movements, however, that a growing civic consciousness appears to have caused the leaders of the revolution to seek the active support of the general public on the basis of honesty and efficiency in the public administration. Nevertheless, in most of the countries involved, the continued depression has resulted in lower government revenues, loss of gold and serious foreign exchange, currency and credit problems which contribute to make interest and sinking fund payments on external loans increasingly difficult. While it is not possible to anticipate much improvement while world prices for primary commodities remain at their present low level, any general recovery in conditions of world trade would probably be reflected most rapidly in the raw material producing countries of Latin America.

Business Profits

Annual reports for 1930 have now been published by some nine hundred industrial and merchandising companies and show that net profits were approximately 40 per cent below those of 1929, and 28 per cent below 1928. Aggregate net profits of the group amounted to \$2,097,000,000 in 1930, to \$3,470,000,000 in 1929 and to \$2,929,000,000 in 1928. As measured by quarterly reports issued during the year, there was an increase in the second quarter over the first, followed by a decline in the third and fourth quarters. Our tabulation of the statements of 550 companies for the first half-year, published last September, indicated a decline of but 30 per cent from the corresponding period of 1929, but the reports for the full year reflect the further curtailment in volume that occurred during the last six months, as well as the further decline in prices that necessitated substantial write-offs on inventories.

The accompanying table is divided according to fifty major lines of business and shows the number of available reports in each group, their combined net profits (less deficits) after all charges but before dividends in 1929 and 1930, with the percentage change, also their combined capital and surplus as given on the published balance sheets at the beginning of each year, with the percentage change, and the rate of net profits return upon capital and surplus for the two years. Rate of return is a better measure of the profitability of industry than a mere comparison of profits, for the reason that the latter does not allow for the surplus earnings and new capital that are invested in industry from year to year. For the industrial group as a whole, the rate of return in 1930 amounted to 7.2 per cent, while the corresponding figure in 1929 was 13.3 per cent and in 1928 was 12.0 per cent.

It is believed that this summary of nine hundred corporations gives a fairly accurate picture of the trend of business profits last year, although the showing of individual groups is subject to change as the later reports become available. Preliminary or estimated figures have been included for about forty large and representative companies pending the publication of actual reports, but it is not thought that final figures will change the results materially. A limited number of companies whose fiscal years closed during the latter half of the calendar year or on January 31, 1931, are also included for the sake of completeness, but their importance is not large in relation to the total.

Last year 147 companies, or 16 per cent of the total, actually reported larger profits than in the year before. On the other hand, 182 companies, or 20 per cent of the total, reported deficits before dividends aggregating \$108,976,000, which have been deducted in arriving at the net profit figure in each group.

Steel, Automobiles and Petroleum

Profits in the iron and steel industry, as measured by the reports of 40 companies, declined from \$369,000,000 to \$179,000,000 or by almost 52 per cent. Capital and surplus at the beginning of last year totaled \$3,703,000,000 as compared with \$3,278,000,000 the year previous, and rate of return dropped from 11.3 per cent to 4.8 per cent.

In the automobile industry, net profits of 19 manufacturers declined from \$348,000,000 to \$170,000,000 or by 51 per cent, and rate of return on capital and surplus, which totaled \$1,527,000,000 at the beginning of last year, dropped from 25.1 per cent to 11.1 per cent. An even greater decrease was experienced by the 39 companies making automobile accessories and parts.

**Summary of Industrial Corporation Profits for Years 1929 and 1930 With Percentage
Return on Capital and Surplus
(In Thousands of Dollars)**

| No. | Industry | Net Profits | | Per Cent Change | Capital and Surplus | | Per Cent Change | Rate of Return | |
|-----|------------------------------|-------------|-------------|--------------------|---------------------|--------------|--------------------|-------------------|-------|
| | | 1929 | 1930 | | 1929 | 1930 | | 1929 | 1930 |
| 9 | Agricultural Implements | \$ 67,093 | \$ 45,553 | -32.1 | \$ 401,640 | \$ 440,239 | + 9.6 | 16.7 | 10.3 |
| 10 | Amusements | 63,150 | 67,367 | + 6.7 | 317,934 | 399,909 | +25.3 | 19.9 | 16.8 |
| 23 | Apparel | 19,299 | 8,028 | -58.4 | 165,135 | 172,516 | + 4.5 | 11.7 | 4.7 |
| 19 | Automobiles | 348,818 | 169,780 | -51.3 | 1,389,999 | 1,527,008 | + 9.9 | 25.1 | 11.1 |
| 39 | Auto Accessories | 81,712 | 32,832 | -59.8 | 335,218 | 397,321 | +18.5 | 24.4 | 8.8 |
| 16 | Bakery | 54,592 | 48,421 | -11.3 | 344,289 | 357,114 | + 3.7 | 15.9 | 13.6 |
| 36 | Building Materials | 49,533 | 34,529 | -30.3 | 581,073 | 608,784 | + 4.8 | 8.5 | 5.7 |
| 23 | Chemicals | 197,929 | 146,913 | -25.8 | 1,084,092 | 1,251,246 | +15.4 | 18.3 | 11.7 |
| 10 | Coal Mining | 9,652 | 8,037 | -16.7 | 355,992 | 356,986 | + .3 | 2.7 | 2.3 |
| 13 | Confectionery & Beverages | 34,858 | 35,123 | + .8 | 142,827 | 156,290 | + 9.4 | 24.4 | 22.5 |
| 26 | Cotton Mills | 6,650 | D-10,116 | ..... | 201,557 | 202,522 | + .5 | 3.3 | ..... |
| 5 | Dairy Products | 44,081 | 47,512 | + 7.8 | 182,009 | 260,979 | +43.4 | 24.2 | 18.2 |
| 15 | Drugs and Sundries..... | 72,767 | 77,805 | + 6.9 | 333,420 | 362,124 | + 8.6 | 21.8 | 21.5 |
| 28 | Electrical Equipment | 133,515 | 80,688 | -39.6 | 699,372 | 826,159 | +18.1 | 19.1 | 9.8 |
| 5 | Fertilizer | 5,112 | 6,609 | +29.3 | 132,326 | 139,128 | + 5.1 | 3.9 | 4.8 |
| 35 | Food Products—Misc..... | 118,608 | 96,891 | -18.3 | 850,481 | 894,409 | + 5.2 | 13.9 | 10.8 |
| 6 | Furniture | 998 | D-1,139 | ..... | 34,662 | 37,880 | + 9.3 | 2.9 | ..... |
| 16 | Heating & Plumbing..... | 43,943 | 19,158 | -56.4 | 307,734 | 354,713 | +15.3 | 14.3 | 5.4 |
| 22 | Household Goods | 58,152 | 44,175 | -24.0 | 403,110 | 414,209 | + 2.8 | 14.4 | 10.7 |
| 40 | Iron and Steel..... | 369,239 | 178,649 | -51.6 | 3,277,585 | 3,702,905 | +13.0 | 11.3 | 4.8 |
| 7 | Laundry and Cleaning..... | 2,135 | 2,043 | - 4.3 | 12,766 | 13,689 | + 7.2 | 16.7 | 14.9 |
| 5 | Lumber | 1,953 | 238 | -37.8 | 22,078 | 24,138 | + 9.3 | 8.8 | 1.0 |
| 56 | Machinery and Tools..... | 55,385 | 29,373 | -47.0 | 358,015 | 391,860 | + 9.4 | 15.4 | 7.5 |
| 19 | Meat Packing | 36,799 | 28,276 | -23.2 | 676,835 | 693,653 | + 2.5 | 5.4 | 4.1 |
| 29 | Mdse.—Chain Stores..... | 99,903 | 78,734 | -21.2 | 577,016 | 626,707 | + 8.6 | 17.3 | 12.6 |
| 10 | Mdse.—Dept. Stores | 14,495 | 9,097 | -37.2 | 131,333 | 133,474 | + 1.6 | 11.0 | 6.8 |
| 4 | Mdse.—Mail Order | 44,997 | 8,365 | -81.4 | 309,670 | 396,741 | +28.1 | 14.5 | 2.1 |
| 5 | Mdse.—Wholesale | 4,050 | D-2,090 | ..... | 65,735 | 64,132 | - 2.4 | 6.2 | ..... |
| 10 | Mining, Copper | 155,935 | 32,651 | -79.1 | 868,614 | 1,165,895 | +34.2 | 18.0 | 2.8 |
| 15 | Mining, Other Non-ferrous.. | 107,287 | 55,507 | -48.3 | 769,062 | 899,849 | +17.0 | 13.9 | 6.2 |
| 9 | Office Equipment | 29,945 | 16,213 | -45.9 | 141,322 | 143,891 | + 1.8 | 21.2 | 11.3 |
| 7 | Paint and Varnish..... | 13,726 | 3,394 | -75.3 | 103,126 | 121,182 | +17.5 | 13.3 | 2.8 |
| 23 | Paper and Products..... | 13,737 | 9,484 | -31.0 | 153,022 | 166,241 | + 8.5 | 9.0 | 5.7 |
| 41 | Petroleum | 627,539 | 343,177 | -45.3 | 5,805,722 | 6,489,612 | +11.7 | 10.8 | 5.3 |
| 10 | Petroleum—Pipe Line | 39,115 | 31,109 | -20.5 | 188,359 | 193,645 | + 2.8 | 20.8 | 16.1 |
| 16 | Printing and Publishing.... | 34,669 | 29,191 | -15.8 | 128,977 | 141,361 | + 9.6 | 26.8 | 20.6 |
| 13 | Railway Equipment | 58,315 | 53,315 | - 8.6 | 744,047 | 775,708 | + 4.3 | 7.8 | 6.9 |
| 5 | Real Estate | 11,040 | 8,460 | -23.5 | 101,074 | 100,726 | - .3 | 10.9 | 8.4 |
| 8 | Restaurant Chains | 3,622 | 3,555 | - 1.8 | 36,361 | 36,802 | + 1.2 | 10.0 | 9.7 |
| 18 | Rubber Tires, etc..... | 37,013 | D-3,067 | ..... | 556,570 | 648,969 | +16.6 | 6.6 | ..... |
| 10 | Shipping, etc. | 16,779 | 10,239 | -39.0 | 253,755 | 186,567 | -26.5 | 6.6 | 5.5 |
| 9 | Shoes | 25,655 | 15,914 | -38.0 | 189,018 | 197,365 | + 4.4 | 13.6 | 8.1 |
| 20 | Silk and Hosiery..... | 12,229 | D-1,915 | ..... | 126,664 | 134,446 | + 6.1 | 9.7 | ..... |
| 7 | Stock Yards | 2,872 | 2,935 | + 2.2 | 36,584 | 37,139 | + 1.5 | 7.8 | 7.9 |
| 16 | Sugar—Cuba | D-2,905 | D-15,681 | ..... | 278,095 | 271,265 | - 2.5 | ..... | ..... |
| 14 | Textile Products—Misc..... | 15,426 | 2,917 | -81.1 | 153,897 | 160,787 | + 4.5 | 10.0 | 1.8 |
| 20 | Tobacco | 108,333 | 117,306 | + 8.3 | 715,657 | 775,336 | + 8.3 | 15.1 | 15.1 |
| 5 | Wool | D-4,868 | D-1,524 | ..... | 129,951 | 125,650 | - 3.3 | ..... | ..... |
| 62 | Miscellaneous—Mfg. | 111,466 | 84,259 | -24.4 | 671,328 | 767,872 | +14.4 | 16.6 | 11.0 |
| 26 | Miscellaneous—Services | 14,275 | 9,543 | -33.1 | 180,232 | 182,832 | + 1.5 | 7.9 | 5.2 |
| 900 | Total | \$3,470,113 | \$2,097,823 | -39.6 | \$26,025,340 | \$28,929,975 | +11.2 | 13.3 | 7.2 |

D—Deficit.

In the petroleum group of 41 companies, there was an indicated decline in earnings from \$628,000,000 to \$343,000,000 or by 45 per cent. (Excluding 12 of the large organizations for which preliminary or estimated figures were used, the decline amounted to 45.1 per cent.) Capital and surplus at the beginning of last year aggregated \$6,490,000,000 and the rate of return declined from 10.8 per cent to 5.3 per cent.

Lack of space prevents a discussion of each of the different lines in detail, or the special factors that affect past and future earnings

and are constantly changing. A number of industries held up surprisingly well last year, among which might be mentioned amusements (motion pictures and theatres), baking, confectionery and beverages, miscellaneous food products, restaurant chains and railway equipment. Seventeen tobacco companies reported combined earnings actually larger than those of the preceding year, but this is accounted for by the outstanding showing of the four large cigarette manufacturers, earnings of the remaining 13 companies decreasing by 32 per cent.

Railroad and Utility Earnings

Total operating revenues of all the Class I railroads last year, as reported to the Interstate Commerce Commission, amounted to \$5,343,000,000 as compared with \$6,360,000,000 in 1929, a decrease of 16 per cent, while net railway operating income declined from \$1,275,000,000 to \$885,000,000 or by 30.5 per cent. Rate of return on property investment (as distinguished from capital and surplus, or "stockholders' equity," used in the case of industrials) was but 3.3 per cent, comparing with 4.9 per cent in 1929, and the lowest since 1921. Reports to stockholders showing the net income remaining after bond interest and other charges have thus far been issued by 63 railroads and show a decline from the previous year of 44 per cent.

Gross earnings of the ninety-five leading public utility systems operating electric light, heat, power, gas, traction and water services amounted to \$2,315,600,000 in the year 1930 (with December partly estimated) as compared with \$2,308,750,000 in 1929, an increase of 3.2 per cent, while net operating earnings were approximately \$1,026,600,000 against \$1,006,500,000 in 1929, a gain of 1.9 per cent. After payment of interest and sundry charges, net profits of the utilities, as indicated by the complete reports already issued, were about equal to those of the preceding year, or slightly lower.

Profits in the Cement Industry

Although the immediate cause of the decline in corporation profits last year was the reduced volume of general business and falling prices, a more fundamental difficulty besetting many industries is the excessive investment of new capital for the expansion of productive capacity during recent years. Of this, the cement industry affords an example. Here is an industry that for many years had enjoyed an almost uninterrupted growth and whose product is used in a countless variety of ways.

Last year the Portland Cement Association estimated that approximately 32 per cent of all cement was used in concrete roads, streets and alleys and 25 per cent for structural concrete in commercial, industrial, public and private buildings, the remainder being distributed in sewerage, drainage, irrigation and water power projects, bridges, railways, rural uses, masonry blocks, etc. The tall skyscrapers, huge dams and other spectacular projects account for a surprisingly small portion of the total consumption of cement, the bulk of the demand coming from the more commonplace building groups.

During 1930 the nation's road building program was carried forward with increased effort because of its effect in enlarging em-

ployment, the State of Iowa leading all others with the construction of more than 1,000 miles of paved highways. Not all the money spent for materials is for cement, however, a large part going for sand, gravel and stone, while the cost of labor for excavating, grading and laying pavement is usually fully as much as for materials, so that the purchase of cement constitutes only 10 to 15 per cent of the total expenditure. In the construction of steel frame buildings a considerable amount of concrete is used, as well as brick and stone, but it usually contains a large part of cinder or other aggregate and a much smaller amount of cement in relation to its size or cost, than a single family residence. For every large building constructed there are literally hundreds of private dwellings, each requiring 50 to 100 barrels of cement for its foundation, cellar, sidewalks, driveways and perhaps stucco exterior.

While there was a decline last year in new building construction amounting to more than 21 per cent, according to the F. W. Dodge Corporation figures, there was an increase of nearly 15 per cent in contracts awarded for public works and utilities, the most important item of which is highways. There was a decrease of but 6 per cent in shipments of cement, hence it might possibly have been supposed that the industry was having a highly prosperous year.

As a matter of fact, this was not the case. Annual reports that have recently been issued by thirteen representative domestic manufacturers of cement show that net profits, after all charges but before dividends, in 1930 were about 10 per cent lower than in 1929, and while this in itself is not a large decline measured against the decreases shown in many other industries, it follows a decrease of 32 per cent in 1929 from 1928 when industry generally was enjoying a big increase. The rate of profits return on capital and surplus showed a marked decline, as may be seen from the following summary of the statements of the group:

Thirteen Domestic Cement Manufacturers (In Thousands of Dollars)

| | 1928 | 1929 | 1930 |
|---|-----------|-----------|-----------|
| Capital & Surplus, Jan. 1..... | \$172,178 | \$173,323 | \$177,825 |
| Net Profits for year..... | 14,271 | 9,732 | 8,762 |
| Profits return on Capital & Surplus | 8.3% | 5.6% | 4.9% |

A decrease in last year's earnings as compared with 1929 was reported by the majority of companies, although four were able to show gains. Figures of the Universal Atlas Cement Company, the largest producer, are not included, for the reason that it is a subsidiary of the United States Steel Corporation and does not publish a separate statement.

Overexpansion of Plant Capacity

The explanation of the declining trend of earnings is to be found in the excessive expansion of manufacturing capacity during the past few years. Growth of the domestic industry has been almost phenomenal, as may be seen from the following table showing plant capacity and production by ten-year intervals up to 1920 and by single years up to 1930. Ratio of finished cement produced to manufacturing capacity is also given so as to show the decreasing percentage of capacity utilized in recent years.

Cement Production and Capacity
(In Thousands of Barrels)

| | Estimated Capacity | No. of Plants | Annual Production | Per cent Production of Capacity |
|------------|--------------------|---------------|-------------------|---------------------------------|
| 1880 | (a) | (a) | 42 | (a) |
| 1890 | (a) | 16 | 335 | (a) |
| 1900 | (a) | 50 | 8,482 | (a) |
| 1910 | 97,670 | 111 | 76,550 | 78.3 |
| 1920 | 146,400 | 117 | 100,023 | 68.3 |
| 1921 | 144,354 | 115 | 98,842 | 68.5 |
| 1922 | 146,203 | 118 | 114,790 | 78.5 |
| 1923 | 161,858 | 126 | 137,460 | 84.9 |
| 1924 | 175,100 | 132 | 149,358 | 85.3 |
| 1925 | 193,558 | 138 | 161,659 | 83.5 |
| 1926 | 215,300 | 140 | 184,530 | 76.4 |
| 1927 | 227,080 | 153 | 173,207 | 76.2 |
| 1928 | 243,702 | 156 | 176,299 | 72.3 |
| 1929 | 259,344 | 163 | 170,646 | 65.7 |
| 1930 | (b) 260,000 | 165 | 160,905 | 61.8 |

(a) Not computed.

(b) Partly estimated.

Between 1920 and 1925, plant capacity was enlarged by 34 per cent and production increased 62 per cent, thereby raising the ratio of operations from 68.3 to 83.5 per cent of capacity. Evidently the favorable conditions of these years encouraged investment unwarranted by demand, for in the next five years plant capacity was enlarged by 34 per cent while production decreased slightly, thus lowering the operating ratio to 61.8 per cent of capacity, which is the lowest ever registered since the computation of the figures began in 1907, save in 1918-1919 when building construction was at a standstill due to the war and tight money market conditions.

Accompanying the marked increase in capacity since 1920, there was a steady decline in prices, and present average factory price for all plants in the country is the lowest in many years. In some sections of the country the situation is worse than in others. In the Mountain and Pacific States, the shipments of cement last year represented less than 50 per cent of plant capacity. Even in the Middle Western States, where percentage of idle capacity was the lowest of any district, the keen competitive conditions that prevail illustrate how a relatively small overproduction by a few companies can break the price structure to the detriment of the entire industry.

Importation of foreign cement has further aggravated the competitive situation existing in the domestic markets, particularly in the

cities located on or near the Atlantic Seaboard. A duty of 6c per 100 pounds, or 23c per barrel, was included in the 1930 tariff law but apparently has been insufficient to protect American producers against the importations of foreign cement, which still continue although in smaller volume. Because of the manner in which foreign cement is sold, it has a disrupting influence upon prices far out of proportion to its actual amount.

As a result of these conditions, the securities of most of the representative cement companies are at present selling at a substantial discount below their book values in spite of the comfortable financial position shown by their latest statements.

Whenever the cement industry, or any other industry, becomes overdeveloped, the only remedy is to suspend further expansion until such time as demand again assumes a proper relation to capacity. No one can say precisely what this relationship should be, for every industry needs to carry a certain amount of surplus capacity to meet peak seasonal requirements, to allow for repairs to machinery and to provide for the continual shifting in demand among different sections of the country. Healthy competition stimulates efficiency and economy in operations, and tends to lowering of costs. Addition of too much new capital, however, must inevitably be followed by a reaction that has a disastrous result to all concerned — not only to the companies already established, but to the investors, to labor, to allied industries that are founded to supply an imaginary demand, and to the communities themselves, because the projects are fundamentally unsound in principle.

Hard Times of Old

The following quotations are from a letter received by us in 1922, written by a man then serving as receiver for a failed bank in a state west of the Mississippi River. The extracts were prepared for use in the Monthly Letter at that time, but under the pressure of more urgent matter were crowded out and the article filed for future reference. The letter compares the hard times of 1921-22 with other periods of hard times which the west had known. His descriptions are again pertinent:

I remember very well the hard times from 1873 on, as I had just finished learning telegraphy and wanted to secure a position.

One of the first replies I had for my application was that there were forty telegraph operators for every position open, and it was impossible to tell when I could be given employment. Later on a man, whom I used to go to school to, who had quit school teaching and adopted railroading as a profession, made me a proposition that I could come and work for him if I wanted to work for my board and room. At that time all I had was twenty dollars in money. After that I did not know where my bread and butter would come from. I accepted his proposition and worked for three months for my room and board, putting in from fourteen to seventeen hours a day,

and thought I was fortunate. You will probably agree with me that it would be hard to get any one to perform services of that kind under present conditions.

It happened that it was a good investment for me. I was soon recognized as a young fellow who was not afraid to work, so when opportunity offered the superintendent of the railroad I was with put me to work on a regular salary. That, however, only helped me to secure credit, as the railroads at that time in the Middle West, particularly Illinois, were nearly all in the hands of receivers, or badly behind in payment of their obligations and were placed in the hands of receivers before any pay was received by employees. Boarding house proprietors and others accepted orders on the railroad for our board and rooms, which kept us going.

I was advanced from time to time and later put in charge of the traffic in the State of Illinois for the Wabash Railroad, where I was during the hard times in the West between 1887 and 1893, when people in both North and South Dakota, Kansas and Nebraska were starving to death. Our railroad, with a number of others, volunteered to haul supplies to the suffering people of these states free of charge. Our road hauled about three hundred car-loads of such freight, consisting of almost every article imaginable which was collected by the various committees located at towns along the railroad. I have no doubt you will remember the circumstances, as such free transportation was given by roads in the East as well as the Middle West.

While the present depression has been bad, the people in this generation do not realize what the people in those days went through. Even though the conditions have been bad, we have not been compelled to ask for help from our Eastern neighbors. The conditions have been very much exaggerated, and many of our politicians are largely responsible for this exaggeration.

He had retired from railroading and was located in one of the States hard hit by the fall of agricultural prices. Writing of the numerous bank failures of that time he said:

My experience has shown me that the causes of bank failures have been various. Two reasons, however, are foremost. One is that a great many bankers were not fit for the business they undertook to handle. Their expenses were much greater than they should have been for the amount of business that was done. They used very poor judgment in making loans, frequently loaning too much money to one individual.

When I took charge here and classified the paper left in the bank I found that we had \$117,000 or more of absolutely worthless paper, which had been carried and renewed for several years without carrying any security whatever. In some cases the men were dead or had left the country. Like most other receivers, I have been most successful in collecting on the small loans.

Another reason for so many bank failures was caused by too many banks being started for the population. Three years ago there was one bank in the State for every twelve hundred people. With about two hundred failures in the last eighteen months this has been greatly reduced.

The Panic of 1893 and Subsequent Depression

The letter above referred to was recalled from the files by the receipt of another of like reminiscences, from Mr. A. W. Elliott, of the house of Jeremiah Williams & Co., wool merchants, Boston. Following is an extract from Mr. Elliott's letter, dated December 26, 1930:

Neither in your review nor in the others have I seen the present world wide depression compared with the depression that started in 1890 and continued with various ups and downs until about 1900. It seems to me that the present situation is quite analogous to the situation existing from 1890 to 1900.

You will remember that in the Fall of 1890, an important banking house of London, required assistance, largely on account of an over-expansion of credits in South America, and particularly in the Argentine Republic. All kinds of commodity prices during the 1890's fell to very low levels, largely due to the outpouring of increasing amounts of raw materials from the Southern Hemisphere and to over-production of cereal grain in the United States and Canada consequent on the opening of the new lands west of the Mississippi River.

I think it was in 1894 that I saw cash wheat selling in Minneapolis at 49 cents a bushel, May oats in Chicago at 10 cents per bushel. They were burning corn in Nebraska and Iowa in the stoves because it was cheaper than coal. The price of sheep, cattle and hogs in the various interior markets and in Chicago fell very low. Hundreds of thousands of sheep were shipped from the range states, fed in Iowa, Nebraska and Kansas on corn that cost only 8 to 10 cents a bushel, and when fattened shipped to Kansas City and Chicago, and sold for a price that did not pay the transportation charges and the feed bills.

Many of the transcontinental railroads, like the Northern Pacific, the Great Northern, the Santa Fe, ran only one passenger train a day east and west in the territory west of the Missouri River, and there were only occasional freight trains. In this country we had the so-called Cleveland panic in 1893, the Bryan panic in 1896 and again in 1898 railroad traffic fell to such a low point that in spite of the gold rush to the Klondike, the Northern Pacific and the Great Northern ran only one through passenger train a day to Pacific Coast terminals.

I am describing conditions in this country because I know them best, but as I recollect them everywhere all over the world, the depression was very serious and comparable to that existing in the United States. My recollection of these ten years is very keen, because I was then a young man just starting to work and the impressions received between the ages of seventeen and twenty-seven remain with one more clearly perhaps than impressions received at any other period of one's life.

These letters, written from personal recollections, agree with the authentic records of the times described, and it will be of interest to recur briefly to the causes of these depressions.

Causes of the Crisis of 1873

The crisis of 1873, to which the first correspondent refers, was one of the most severe in the history of the country, and like every other major crisis was related to a preceding period of extraordinary activity and development. Moreover, it was worldwide, and related to two wars, the war between the States in this country and the Franco-Prussian War of 1870-1871. Both of these wars not only had the usual immediate effect of causing monetary inflation and a rise of prices, but a following period of great industrial activity.

The Franco-Prussian war brought about the unification of the numerous German states into the German empire, and this gave a great stimulus to industrial development, which, however, was carried too far for the time and for the capital available, and ended in a crash. The war indemnity paid by France was blamed for a part of the excessive credit expansion, and Bismarck is said to have remarked that Germany might better have paid an indemnity to France. This experience is so much like that of the United States in its use of the influx of gold resulting from the last war, that the

two may be appropriately mentioned together. Both illustrate the importance to all countries of maintaining the world equilibrium.

In the United States during the Civil War, issues of paper money inflated the monetary stock and caused a rise of prices which gave a fictitious appearance of prosperity. A collapse occurred soon after the end of the war, in 1865, and in 1866 business conditions were much as they were after the collapse of 1920-21. However, fundamental conditions were favorable to the greatest period of development the country ever had known. Normal development had been retarded during the Civil War, and after peace was restored, with the Federal Union maintained, the credit and prestige of the nation stood higher than ever before. European capital was ready to flow into the country on a great scale and European immigrants came in greater numbers than ever before.

Excessive Railway Construction

Railway building was active in the fifties, but the total of miles under operation in 1855 was but 18,354. In the five years ended with 1860, 12,452 miles were added, but in the next four years (war years) the additions fell to 4,464 miles. In the seven years 1866-72 new construction rose to about 35,000 miles, or an average of about 5,000 miles per year.

European investors looked with favor upon railway bonds, and the American people were wild for more railways. Horace White, a well-known editorial writer and economist of that time, afterward attributed the severity of the 1873 crisis mainly to excessive railway construction. He wrote: (*)

There can be little doubt that the most potent contributing cause was the unwise liberality of Congress in offering immense grants of land to corporations as a free gift on condition that they would build railways through them. No less than 170,000-000 acres were flung out to the cupidity of capitalists after the close of the war. Such an alluring bait had never been danced before the eyes of a whole nation, not of one nation merely, but as many as chose to participate, for capital knows no boundary lines. England, Germany, and Holland are believed to have invested \$250,000,000 in our railway bonds between 1865 and 1873, which afterward defaulted, not to mention those which managed to pay their interest and keep out of bankruptcy.

These railroads were built largely through unsettled regions, the purpose of Congress being to provide transportation facilities to stimulate settlement. The policy had that effect. Population poured in along the new lines, farms were opened and houses built on them, new towns sprang up, and large expenditures were made in addition to those

involved in the construction of the railroads themselves. The total of all expenditures was sufficient to exert an influence upon all the industries of the country, and carried prosperity to a high pitch.

This rate of development, however, was abnormal, and could not be maintained. The country did not need to have railroad construction go on at that rate. The opening up of so much territory resulted in an excessive production of the common farm staples, and prices fell to an unremunerative level, which affected all business. The buying power of the population in the newly developed territory was low. A great amount of capital was locked up where for the time it was unproductive; railroad building, except in completion of contracts, almost ceased, affecting all the industries that previously had been stimulated by it, and industrial depression ensued.

In this connection it should be said that this period of agricultural expansion following the Civil War was also notable as the period of change from hand tools to horse-drawn agricultural implements. The reaper, the self-binder, corn planter, and corn cultivator were rapidly evolved and added much to the productive capacity of the individual farm worker, enabling him to till more acres. These new implements were a factor in the increased production which resulted in low prices. Something like this development is occurring now in the introduction of power-drawn farm machinery in substitution for horse-drawn machinery.

A great amount of indebtedness had been created during the boom period, which, of course, was a source of embarrassment during the depression. Economies were found to be necessary in the management of business and in private affairs, unemployment resulted and many readjustments were necessary before business was on a normal basis again. The effects of the unprofitable investments and fall of security prices, also of low prices for farm products, reacted upon Europe.

The 1873 crisis was aggravated by the fact that the United States was on a fluctuating paper money basis. In 1874 the resumption act was passed, providing that on and after January 1, 1879, the government legal tenders would be redeemed in gold at par. This involved an appreciation of the currency, which meant a fall of the price level, and undoubtedly delayed recovery pending the restoration to par, although it was greatly to the advantage of the country to get the currency back on the gold basis. The resumption act was the subject of political controversy which kept the outcome for a time uncertain, but by 1878 the prospect was fairly clear and recovery began.

(*) *Cyclopedia of Political Science, Political Economy and United States History*, published by Rand, McNally & Company.

The Next Period of Expansion

The inflow of foreign capital began again in 1879 and railway-building revived. The decade 1880-89 is distinguished to this day for the construction of the greatest mileage of new single track in any ten years of the country's history. This was the period of rapid development in the Dakotas, other states west of the Missouri River and in the Southwest. Oklahoma was opened to settlement in 1890.

Up to this time agricultural development for export to western Europe had been almost wholly in the United States, but in the latter part of the eighties railway building began on an extensive scale in Russia, Australia, Argentina and Canada. It was overdone in Australia and Argentina, with an excessive use of credit which produced disastrous results in both countries and occasioned in London the crisis of 1890 to which Mr. Elliott refers. The London money market was so disturbed by defaults that the Bank of England secured a loan from the Bank of France of what at the time was considered a very large sum, about \$15,000,000, which was transferred in gold to London.

The full effects of these world developments were not felt in the United States until several years later, the low price for wheat to which Mr. Elliott refers occurring in 1894. World markets were glutted with farm products from the lands which the railway construction of the eighties had brought under cultivation. Meanwhile, also, a mania for city-building and real estate speculation had raged over this country, creating another great body of indebtedness, which was largely liquidated in the credit crisis of 1893 and the years of depression following. Again, the crisis was aggravated by political agitation over the standard of value. A worse state of confusion than existed at that time hardly could be imagined. The outflow of gold from this country was so heavy that the Government faced the danger of being unable to maintain the gold standard, and its credit was more seriously shaken than at any time since the end of the civil war. The most direful predictions were current. However, recovery came strong in 1898, after the settlement of the money question. Evidently nothing had been wrong with the country except that excessive optimism and ill-judged development had unbalanced the situation, compelling a temporary slowing down until the equilibrium was regained.

From 1898 to the outbreak of the great war there were fluctuations in the volume of business, including the banking panic of 1907, the latter being due in the main to speculative excesses and the instability of the banking system before the Reserve system was established. The world war brought on the most

violent and prolonged period of industrial and financial disturbance known to the modern world, but while the results have been serious, the country's financial and industrial organization has stood the stress better than in either of the preceding periods described.

Explanation of Business Depressions

A review of the crises of 1893, 1873, 1857, 1837, and earlier ones in this and other countries shows that all have marked the culmination of periods in which an exuberant spirit of optimism had led to excessive spending and debt-making in anticipation of continuing and increasing prosperity. In boom times the imaginations of men can easily outrun any possible development, and this is what had happened in each instance. Every such period affords an exhibition of crowd psychology. Few persons are not influenced by what seems to be the prevailing opinion and the movement gains strength as one lagging doubter after another joins it.

The worst result of every such period is not that numerous individuals lose paper fortunes or previous accumulations of actual wealth, but that the industrial and business organization is thrown out of what may be called its normal stride, first by an abnormal stimulus and then by a disastrous reaction. During the period of free borrowing and spending, the volume of business rises above normal, and when the reaction comes it falls as much below normal as it had previously been above. This describes the business cycle. It is not regular in its movements, and efforts to chart its progress in advance are of doubtful value because of varying conditions, but the charts of different periods looks very much alike.

The theorizing which follows every crisis is of a uniform kind. For the most part it amounts to some such generality as that "there must be something wrong with the social and industrial system," with an inference or proposal that a new control of some kind—by a new set of somebodies—should be established. Most of this talk does not actually contemplate political control, but that is the logical outcome of it. When the international conference for the limitation of armaments was being held in London about one year ago, James Maxton, of the left wing of the Labor party, attacking Ramsey MacDonald, the party leader and premier, for spending time in such negotiations instead of devising remedies for unemployment, asked: "When will there be a five-power conference to consider the world's needs for wheat, coal, cotton and wool in the just proportion which each should receive?" This is the end to which the agitation tends—a state of society regulated by Governments, who would have authority to distribute the popu-

lation in the industries and occupations and distribute the product by arbitrary decree, after the system now in operation in Russia.

Undoubtedly the social and industrial organization is far from perfect, and probably will be so until the human beings who compose it have arrived at a much higher standard of wisdom and moral perfection than they have yet attained, but up to date the people have not been very well pleased with such overhead control as they have tried out. Even the United States Congress does not seem to be an ideal body for regulating all the business affairs of the country. Obviously a representative body of diverse views, like the Congress, could not do the business very well. Such attempts at management only prompt demands for smaller and more arbitrary bodies to take charge. The Labor party of Great Britain has control of the Government but inasmuch as the leadership shows some hesitation about taking over the banks and principal industries to obtain complete control of money, credit and means of employment, the left wing is restless. A cable message to the New York Times of February 23 describes the proposals of Sir Oswald Mosley, a young silk-stockinged aristocrat who has assumed a degree of leadership in the left wing, as follows:

"Fed up," as he says, with the "old gangs" of party politicians and convinced the present Parliamentary system is inadequate to deal with Britain's industrial crisis, Sir Oswald is preparing a new policy of national reconstruction.

In a few days he will appear at the head of a group of young reformers of all parties pledged to the establishment of a restricted form of dictatorship with enormous powers, largely superseding Parliament. Their policy, according to the new manifesto, which is expected to be issued Tuesday, will be social-fascism based on tariffs with sweeping financial changes, including the cancellation of war debts.

This is a sample of the social reform to which the theory of a managed society naturally leads.

It is the free actions of the American people in the management of their property affairs—their earnings, savings, spending, investments—which make the trend of business in this country what it is from time to time. The people do a lot of talking with each other on these subjects, get both good and bad advice, are much influenced by each other and commit many errors, but it may be doubted if they will ever care to surrender the management of these affairs to any overhead authority, even upon an assurance that such authority will assure them a dull, dead-level of regulated "prosperity." What reason is there for thinking that the American people want to be "cared for," instead of having the right as individuals, to think and do for themselves, even to the extent of making their own mistakes?

The Equilibrium in Industry and Trade

The above may seem to be a ponderous economic term, but it has a very simple meaning. It refers to balanced relations between the different products and services which are offered in the markets, the purchase and sale of which make up the entire volume of business done in the world. If everybody or every family did everything for himself or itself, in primitive fashion, there would be no trade or business, and no derangement of trade relationships such as is perplexing the world today; but with the growth of population, development of different kinds of skill and talent, and the accumulation of capital in the form of means of production, division of labor became advantageous, and specialization has gone on until we have the highly organized system of industry and trade which exists today. Complicated as it is, the fundamental object of it all is simply an exchange of services.

These exchanges are based upon relative values, and in early times, when trading was mainly between neighbors, the amount of physical labor embodied in the products doubtless was the main factor considered. Down to recently, and even to the present day, it has been common for farmers to exchange work in harvest time, and upon other occasions when it was advantageous for them to cooperate. Modern society, in the large sense, is cooperative, since the object is to supply the wants of the community by organized effort and with the most efficient use of labor. Direct trade or barter was superseded by the use of money as a standard of value and medium of exchange, with the result that "trading" was shifted to the markets. Everybody now sells his own services or products, and buys the products of others in the market, the law of supply and demand determining the basis upon which these indirect exchanges are made. Since industry is free and competition keen, it is assumed that the different kinds of goods and services will bear such price relations to each other that the working population will voluntarily distribute itself approximately as required to supply them in the needed proportions.

There is reason to believe that on the whole, and in the long run, this automatic process of regulating production and the relative compensation in different industries works very well, and far better than any system of regulation by arbitrary authority. With our system of popular education there is an abundance of trained ability for all occupations, and if compensation in any line is unduly large by comparison, talent may be expected to turn into that line until a fair readjustment is made. It is true that the efforts of various groups to obtain advantages for themselves in the ex-

changes tends to obstruct the freedom of such movements, and impairs the efficiency of the system, but this does not signify that any arbitrary system of regulation would give better satisfaction.

When the workers are so distributed, and their compensation is thus naturally adjusted, a normal industrial equilibrium may be said to exist. Goods and services come on the markets in right proportions and at relative prices which enable the exchanges to be readily made and the markets cleared with little or nothing left over and few willing workers unemployed. The industrial organization then is in the best possible working order, productivity is at the highest practicable level and the standard of living for the population as a whole is the highest attainable at the existing stage of industrial development. The people as a whole are then getting out of the organization all it can give, and enjoying the highest state of prosperity possible at the time.

Unbalanced Relations

Evidently this state of prosperity is dependent upon the balanced relationships. If anything happens to disturb this equilibrium, the entire system of exchanges may be thrown out of balance, the efficiency of the system lowered, and the general state of welfare impaired. The purchasing power of every consumer is in his own products or services, and no important body in the system can lose purchasing power without adverse effects upon the entire system.

It has to be recognized that changes are going on in industry constantly. Changes indeed are a condition of industrial progress, and the chief factor in raising the general standard of living, but changes usually affect somebody unfavorably, and may be a disturbing influence for a time. However, most changes resulting from industrial improvements occur gradually and the ill effects are soon counteracted by the beneficial effects.

It is safe to say that every change which increases the efficiency of industry and results in permanent economies in production will benefit the mass of the people. Although it may displace labor, this only means a release of labor to other work. The fact that economies are accomplished in one place means that an equal amount of purchasing power will be promptly available for use somewhere, and that not only will there be no diminution of the total demand for labor, but that labor will gain in purchasing power over goods. The world has had more than one hundred years of experience with machine development, and these truths have been established by the rising standard of general welfare. The amount of purely technological unemployment is very much exaggerated.

There are other kinds of disturbances which affect employment. The greatest of all disturbances is that which results from war. War is an anachronism in modern life. It disrupts all the relationships of highly organized society. It breaks down the system of mutually advantageous trade, forces industrial expansion upon abnormal lines, creates mountains of indebtedness with no new values to show for them, and causes violent price fluctuations. It leaves the world in a state of disorganization and uncertainty, to find its way back, painfully and more or less blindly, to the normal equilibrium which gives prosperity.

Agricultural Products and Raw Materials

It is well known that since 1920 agricultural products as a class have not recovered the relative position in the price tables that they held before the war. Some of them have declined more than others, but on the whole, as a result of the stimulus given to production outside of Europe during the war, more land has been under cultivation than previously and some of the principal staples of agriculture have been seriously depressed. This is true, also, of raw materials and crude products generally. The Economic and Financial Section of the League of Nations recently issued a memorandum on production and trade, which pointed out that the population in the world was 10 per cent greater in 1928 than in 1913, whereas the production of foodstuffs and raw material was 25 per cent greater. In general, a great disparity now exists between commodities of the crude class, such as are produced by farmers and others who work as small proprietors on the one hand, and finished goods, in which the costs largely consist of the wages of hired labor, on the other hand.

We quoted last month from Professor Henry Clay, an eminent economist of England, upon the disparity between the prices of the food products and raw materials which constitute the bulk of British imports and the prices of British exports, which in the main are manufactured goods. He said that the average price of the imports was only 18 per cent above the pre-war level while the average price of British exports was 51.3 per cent above the pre-war level, and called attention to the fact that on this basis of exchange it was obvious that the foreign customers of British industry were unable to buy British products as freely as before the war.

The London Economist in an editorial based upon Professor Clay's analysis accepts it as an explanation of the falling off of British exports and the deplorable state of unemployment. It comments as follows:

That situation was well summed up by Professor Henry Clay last week in the concluding passage of a broadcast address. The choice before the British people, as he sees it, is threefold. We may find fresh

outlets for our products; or we may accept lower remuneration for our services; or we may reconcile ourselves to continuous large-scale unemployment. The third choice is impossible for any sane nation to make willingly. It would spell not only national failure, but mass demoralization, and it would involve the continual carrying of a fiscal burden which would crib, cabin and confine the industrial efforts of the country. The second choice, in blunt phraseology, involves general wage reductions. This is unpalatable, and will always be so until human nature changes. There remains the first choice, the finding of new outlets, which is, of course, as attractive as it is elusive.

Let us pursue the elusive. How can new outlets be found? It cannot be done by political "stunts," by grandiose schemes of trade development, by a "forward" credit and currency policy, by a fiscal revolution or by any of the other short cuts so dear to the hearts of controversial partisans. The crux of the matter is that in spite of the prodigious fall in the prices of the raw materials of our industries, the prices of our finished products are too high to permit of expansive trade in competitive markets. Somehow or other British costs of production must be brought down. That is the starting point from which all national effort must proceed. Wages are a preponderant part of production costs, and where wages are out of relation to productivity they must be reduced unless and until productivity can be increased. In short, Professor Clay's first two choices, in terms of existing conditions, are really one.

But the problem bristles with complications. Wages are one, but by no means the only item contributive to the too large gap between depressed raw material prices and disproportionately high final prices to the consumer. Wage earners, when asked to submit to some thinning of their weekly pay envelopes, have every right to ask whether all other items contributing to excessive production costs are being simultaneously searched and dealt with—such, for instance, as the degree of managerial and mechanical efficiency, the profits of intermediaries, transport and distributive charges and so on. Unless and until the wage earners are satisfied that not merely wages but all these other items are being effectively tackled—that, in fact, no one is to continue to take more out of the national pool than he puts in—it is mere human nature that they should continue to resist a readjustment which is essential. No less stubborn is the problem of a readjustment of wages as between various industries. It is impossible not to sympathise with the miner who objects to cuts in a wage of £2 a week when the dustman or the postman for work less skilled and less dangerous maintains his earnings at a higher level. The whole problem of relative remuneration in sheltered and unsheltered industries cries out for a national effort at solution.

Is there no way by which these complicated and interwoven problems can be practically and effectively approached? We believe that there is one way, but that way is not likely to be taken unless the leaders of our industrial life, on both sides of the pay counter, are brought to the full acknowledgment that a real national emergency exists.

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A national effort will only be forthcoming if the gravity of the facts is brought home to the country at large. This, we believe, would be done effectively if the Government would give a lead in the sense we have suggested, and if leading employers and trade unionists, fully seized of the facts and possible rem-

edies, would show a similar courage in leadership towards those whom they respectively represent. This country has not been slow in the past to face a recognised emergency; but it is sometimes slow in recognising one. The first step in real recuperative effort is education, and leaders in every section of our national life must become the educators. We are not pessimists, but we believe that a real national emergency faces us to-day.

The situation the world over is similar to that in Great Britain. Goods cannot move into consumption because normal price relations have been broken down. The original cause is to be found in the disorder caused by the war, with over-production of certain commodities, notably wheat, sugar, coffee, cotton, fruits and many raw materials. No doubt this state of overproduction will be gradually cleared up by shifts of labor to other industries, by rising prices in the case of some commodities that have gone too low, cost reductions made possible by improvements in methods of production, wage reductions in some industries, and various readjustments made under the pressure of necessity, all tending to bring the industries to a common basis upon which their products can be exchanged.

Overproduction does not exist in all the industries which apparently have a surplus, but it clearly exists in some of them and the low prices in these affect the other industries. Moreover, the low prices which are due to improvements in methods of production will have to be accepted in part at least as permanent, producers making their own adjustments thereto. It would be in the common interest that necessary concessions be made in a cooperative effort to restore the equilibrium which will give full employment, greater efficiency and lower living costs for all.

There is no reason to apprehend that the real wages of labor ever will turn permanently downward. All of the gains in the productivity of the industries, and these are coming faster than ever before, exert an influence in the other direction, but there is no getting away from the proposition that the goods and services which afford both employment and sustenance to the working population must come on the markets on an exchangeable basis in order to be taken and consumed. Goods must be valued against goods with some regard to the intrinsic values, and not simply in terms of money, in order to clear up the unemployment situation.

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